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MATTERS RELATING TO THE FINANCIAL MECHANISM

Arrangements between the Conference of the Parties and the operating entity or entities of the financial mechanism: information on relevant action by the Council of the Global Environment Facility

Note by the secretariat

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I. INTRODUCTION

At its first session, the Subsidiary Body for Implementation (SBI) requested the retariat to make available at subsequent sessions information on relevant action taken by Council of the Global Environment Facility (see FCCC/SBI/1995/5, para. 24). The sent report is submitted in response to that request.

The GEF Council has held one meeting in Washington D.C., from 23 to October 1995, since the first session of the SBI.

Among issues addressed at that meeting, the following are of particular relevance to Convention:

- Adoption of the GEF operational strategy;
- Approval of a work programme of projects;
- Initiation of Scientific and Technical Advisory Panel (STAP) activities.

Information on related GEF Council action is presented below.

II. OPERATIONAL STRATEGY

The Council considered a draft operational strategy contained in F document GEF/C.6/3. That draft operational strategy included an operational nework applicable to all focal areas and chapters on the specific focal areas of diversity, climate change, international waters and ozone depletion. The Council roved the GEF operational strategy as contained in the revised draft subject to the nges agreed upon during the meeting. The Council noted that the strategy is a living ument and that it should consider annually whether there is a need to revise the strategy.

The operational strategy for climate change covers enabling activities and both g-term and short-term mitigation measures. The operational strategy was prepared in ponse to guidance by the first session of the Conference of the Parties (COP 1), including choice of a mixed strategy combining activities aimed at either long-term or short-term -effectiveness. Its main elements are summarized below.

A. Activities financed by the Global Environment Facility

7. The overall strategic thrust of climate change activities financed by the GEF is to support sustainable measures that minimize climate change damage by reducing the risk, or the adverse effects, of climate change. The GEF will finance agreed and eligible enabling, adaptation, and mitigation activities in eligible recipient countries, as follows:

(a) Enabling activities facilitate implementation of effective response measures. The COP determined the programme priorities of these GEF activities. Some of these will be "agreed full cost" activities in support of country commitments under Article 12.1 of the United Nations Framework Convention on Climate Change (national communications); and others will be "agreed full incremental cost" activities for other relevant commitments;

(b) Adaptation activities minimize the adverse effects of climate change. Initially, in accordance with decision 11/CP.1, para. 1 (c) (iv), the GEF will meet the "agreed full costs of relevant adaptation activities undertaken in the context of the formulation of national communications" (FCCC/CP/1995/7/Add.1). These are the "Stage I adaptation activities" outlined by COP 1. Funding for adaptation activities beyond stage I will be dependent on COP guidance. In the medium and long term, subject to COP guidance, the GEF could finance agreed and eligible activities (including further capacity-building) undertaken to prepare for adaptation, as envisaged by Article 4.1(e), as well as measures to facilitate adequate adaptation, including insurance, and other adaptation measures as envisaged by Article 4.1(b) and 4.4;

(c) Mitigation measures reduce or lead to the reduction of greenhouse gas emissions from anthropogenic sources or protect or enhance removal of such gases by sinks (thus reducing the risk of climate change). The GEF will assist in implementation of national programmes by supporting agreed mitigation activities that meet either long-term or short-term criteria.

8. The operational criteria for these GEF activities will be developed in accordance with this operational strategy and with GEF policies. The initial portfolio of activities financed by the GEF will include:

(a) Long-term measures, including long-term mitigation projects and certain enabling activities. These will be country-driven and prepared in the context of GEF operational programmes;

(b) Enabling activities in support of national communications, including stage I adaptation activities. These will be country-driven and prepared and scheduled in accordance with GEF operational criteria;

(c) Short-term mitigation projects. These will be country-driven and approved individually on the basis of GEF operational criteria.

9. Because enabling activities are the foundation for much of the GEF portfolio, they will be emphasized initially. As the GEF builds on this foundation, the emphasis will gradually shift to the other types of activities. Long-term measures will constitute the largest share of the GEF climate change portfolio, with enabling activities in support of national communications a relatively small and declining share. Short-term mitigation projects will constitute only a small share of the portfolio, in order to maintain the operational emphasis on long-term measures.

10. Insofar as it is feasible, projects will be designed and located so as to meet global environmental objectives in other focal areas and to prevent or control land degradation.

B. Long-term measures

11. Working Group I of the Intergovernmental Panel on Climate Change (IPCC) has emphasized that it is the cumulation of emissions over time, rather than when emissions take place, that determines the impact of greenhouse gases on climate. Long-term mitigation measures respond to this concern.

12. Long-term measures financed by the GEF will be prepared in the context of operational programmes. The operational programmes in climate change designed to achieve long-term impacts build in part on the proposed approach outlined in the analytical framework of the STAP. The STAP recommended promoting the "backstop" technologies – that is, technologies such as renewable energy technology that will in the long run be necessary to prevent greenhouse gas emissions – as a strategy to induce cost reductions. The STAP noted that "what is relevant for the GEF ... is not only (a) [backstop technologies'] current cost, but (b) the prospects for reduction in costs of the technologies in question, and (c) the contribution that [the] GEF can make to cost reductions."

13. In line with the recommendations of the STAP, operational programmes will be developed to expand, facilitate and aggregate the markets for the needed technologies and improve their management and utilization, resulting in accelerated adoption and diffusion. The emphasis of operational programmes will be two-pronged:

(a) To remove barriers to implementation of climate-friendly, commercially viable technologies; and

(b) To reduce the cost of prospective technologies that are not yet commercially viable, to enhance their commercial viability.

1. Operational programmes

14. In both cases set out above, operational programmes will identify measures and technologies that will be funded so as to achieve the objectives of the programme. The operational programmes will provide the context for the investments, capacity-building,

technical assistance, targeted research, public participation, and general enabling activities to be developed.

15. Article 4.1 of the Convention provides a list of commitments by all Parties, including those that need GEF support. The commitments under Article 4.1 concern both anthropogenic emissions by sources and removals by sinks, both mitigation and adaptation, all relevant economic sectors, all greenhouse gases not controlled by the Montreal Protocol on Substances that Deplete the Ozone Layer, and various types of measures. Over time, additional operational programmes concerning issues not addressed by initial operational programmes will be proposed to the GEF Council. These programmes will be:

(a) Consistent with the guidance of the Conference of the Parties of the Convention;

(b) The most promising technically, in accordance with the latest scientific and technical assessments of the IPCC and the STAP;

(c) Cost-effective solutions to meet programme objectives; and

(d) Consistent with the other operational principles and strategic objectives of the GEF.

16. Developing operational programmes will be a dynamic process that emphasizes experiential learning. The lessons learned about effective response measures in recipient countries and by GEF Implementing Agencies will be absorbed, the programmes modified, the insights generalized, and accepted good practice applied in new contexts. Future operational programmes will also cover the measures that countries identify in their national communications, consistent with Article 4.1 of the Convention. In the immediate short term, the constraints on programming will be the financial resources available for a given replenishment period and the capacities of the GEF, its Implementing Agencies, and the recipient countries to develop and implement projects.

17. Three initial operational programmes are proposed on the basis of a review of technical assessments, including recent work for the GEF on the cost reductions expected in new energy technologies. These programmes are consistent with the guidance provided by the COP and with the most recent findings of the IPCC. The three operational programmes that will be developed initially are:

(a) Removing barriers to energy conservation and energy efficiency;

(b) Promoting the adoption of renewable energy by removing barriers and reducing implementation costs; and

(c) Reducing the long-term costs of low greenhouse gas-emitting energy technologies.

C. Enabling activities in support of national communications

18. Enabling activities provide the foundations to address climate change through country-driven activities. They have been defined by the COP, in its decision 11/CP.1, as "planning and endogenous capacity-building, including institutional strengthening, training, research and education, that will facilitate implementation, in accordance with the Convention, of effective response measures" (FCCC/CP/1995/7/Add.1).

1. Support for the preparation of national communications

19. Enabling activities that are specifically related to countries' obligations concerning national communications under Article 12.1 of the Convention are eligible for GEF financing on the basis of "agreed full costs." Such enabling activities will result in plans on which the national communications will be based; these plans will serve as the basis for sustainable and effective response measures. The assistance provided under these enabling activities will conform fully to the guidance of the COP with respect to national communications. Because the format for national communications is still under consideration, the content will, for the interim, be based on the provisions of Article 12.1. The GEF has prepared operational criteria to guide the preparation and scheduling of support for these activities, and to ensure:

(a) Coverage without duplication of the efforts of others (including bilaterally financed studies);

(b) Appropriate sequencing of the activities;

(c) The use of best practice;

(d) Cost-effectiveness (including use of norms).

2. Stage I adaptation activities

20. The GEF will provide full-cost funding for stage I adaptation activities undertaken within the context of the formulation of national communications. Such activities may include studies of the possible impacts of climate change; identification of options for implementing the adaptation provisions, especially the obligations set forth in Article 4.1(b) and 4.1(e); and relevant capacity-building. Stage I adaptation activities supported by the GEF will assist the COP to identify countries and regions that are particularly vulnerable to climate change. Funding for subsequent activities will depend on future COP guidance.

21. Such stage I adaptation activities will identify options to facilitate adequate adaptation to climate change. These activities could encompass the following:

(a) Assessment of national, regional and/or subregional vulnerability to climate change; where appropriate, reliance on related data-gathering systems to measure climate change effects in particularly vulnerable countries or regions and strengthening of such systems as necessary; and identification of a near-term research and development agenda to understand sensitivity to climate change;

(b) Evaluation of policy options for adequate monitoring systems and response strategies for climate change impacts on terrestrial and marine ecosystems;

(c) Assessment of policy frameworks for implementing adaptation measures and response strategies in the context of coastal zone management, disaster preparedness, agriculture, fisheries, and forestry, with a view to integrating climate change impact information, as appropriate, into national strategic planning processes;

(d) In the context of undertaking national communications, building of national, regional and/or subregional capacity, as appropriate, to integrate climate change concerns in medium- and long-term planning.

D. Other enabling activities

22. The GEF will provide financing for other enabling activities on an "agreed full incremental cost" basis. As with other country-driven initiatives, these activities will be prepared in the context of an operational programme to ensure sustainability, continuity, and integration of the enabling activity with follow-up investments, capacity-building, technical assistance, targeted research, and public participation.

E. Short-term projects

23. The GEF may finance climate change projects that reduce greenhouse gases in the short term, even if they are not part of an operational programme. Such projects will be funded if they are country priorities, cost-effective in the short term, and likely to succeed. The rationale for project support is primarily the expected reduction in greenhouse gases rather than its programmatic impact. Careful monitoring will be required to verify that the actual reduction in greenhouse gas emissions meets or exceeds the original expectation.

24. Short-term projects may be of various types, including initiatives to seize unforeseen opportunities and to meet contingencies. Short-term projects may include, but not be limited to, mitigation measures in areas for which operational programmes have not yet been developed – such as transport, carbon sequestration, and agricultural waste. Experience gained in these projects will be a valuable input to the future development of such operational programmes. Projects that require conducive policies in order to be economic and sustainable will be eligible for GEF financing when such policies are in place.

25. Short-term projects must be cost-effective, likely to succeed, and country-driven.

III. WORK PROGRAMME

26. The GEF Council considered and approved a work programme of projects contained in document GEF/C.6/4. Ten of the activities in this work programme were in the climate change focal area (6 enabling activities, 4 projects). For the whole of 1995, the GEF Council will thus have approved activities in the climate change focal area for a projected expenditure of US$71.59 million out of a total of US$240.46 million in all focal areas combined. The share for climate change activities is thus slightly below 30 per cent of the total expenditures envisaged in 1995. It is envisaged, however, that the share of activities in the climate change area in total expenditures in coming years will grow significantly.

IV. SCIENTIFIC AND TECHNICAL ADVISORY PANEL

27. The GEF Council reviewed the budget and the business plan of the STAP. The Council approved the budget and took note of the business plan. The STAP is chaired by Dr. Pier Vellinga.

28. During the discussion of the operational strategy within the GEF Council, the STAP was requested to examine further the following issues emerging from the strategy in the area of climate change:

(a) To review the scientific and technical issues and options in the transport sector. An option note should be prepared;

(b) To review the scientific and technical aspects of stage I adaptation with respect to the identification of vulnerable areas drawing upon the assessments of the IPCC and the Subsidiary Body for Scientific and Technological Advice (SBSTA). A STAP assessment paper should be prepared;

(c) To assess the status of learning curves of renewable energy technologies and identify the most commercially promising technologies. A STAP assessment paper should be prepared.